

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

## trends and challenges of socio-economic development

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### RAPID GROWTH IN MONEY SUPPLY KEEPS MAINTAINING HIGH INFLATION

**Evgeniy Goryunov**, Candidate of Economic Sciences, Head of the Monetary Policy Department, Gaidar Institute;

**Pavel Trunin**, Doctor of Economic Sciences, Leading Researcher, Center for Macroeconomics and Finance, Gaidar Institute;

**Maria Chembulatova**, Junior Researcher, Monetary Policy Department, Gaidar Institute

*At its first meeting in 2025, the Bank of Russia kept the key rate at 21% per annum. In January, inflation accelerated to 9.9%. The reason for the increased inflationary pressure remains a significant expansion of aggregate demand, outstripping the possibility of increasing the supply of goods and services and supported by stimulative fiscal policy. However, tight monetary policy in combination with normalization of the situation on the labor market and stable ruble exchange rate will gradually ensure cooling of lending, stabilization of demand growth rates and slowdown of inflation with moderate GDP growth rates of 1.0–2.0%.*

On February 4, 2025, the Board of Directors of the Bank of Russia left the key rate at 21.0% per annum. Thus, the key rate from October 2024 remains at the highest level since its inception in 2013. The decision of the Central Bank of Russia coincided with the expectations of most analysts.<sup>1</sup> At the same time, inflation remains high despite the slowdown in landing growth rate (in November and December, the credit impulse amounted to -0.3% and -0.1%, respectively, being negative for the first time since 2020) and the growth of the population's propensity to save (in December, the inflow of household funds to banks accelerated from 0.8% m-o-m to 7.2% m-o-m; in total, in 2024, household funds in banks rose by 26.1%, 1.5-fold higher than in 2023). An important factor of high inflation is still the fiscal policy, which leads to a rapid expansion of money supply, so a sustainable slowdown in inflation is possible if the parameters of fiscal policy are normalized, which is still planned for 2025. The signal of the Russian Central Bank on the further direction of monetary policy was moderately tight, which practically excludes the lowering of the key rate at the next meeting on March 21.

In the updated forecast of the Central Bank of Russia, the average value of the key rate for 2025 has been raised by 200 bp compared to the October version: the Bank of Russia expects the rate this year in the range of 19–22%.<sup>2</sup> The average inflation forecast for 2025 has been increased by 3 p.p. to 9.1–9.8%.

1 URL: <https://www.interfax.ru/business/1008892>

2 URL: [https://www.cbr.ru/Content/Document/File/172536/forecast\\_250214.pdf](https://www.cbr.ru/Content/Document/File/172536/forecast_250214.pdf)

## Monitoring of Russia's Economic Outlook

Thus, the average real interest rate next year is still forecasted to be above 10%. In its press release, the CBR noted that inflationary pressure intensified in Q4 2024, reflecting the high domestic demand in the second half of 2024 and the fall of the ruble exchange rate. Inflation inertia is reinforced by high inflation expectations (at the same time, for the first time since Q1 2024, the price expectations of enterprises decreased). As a result, the seasonally adjusted annual growth rate of the general price level accelerated from 11.3% in Q3 2024 to 12.1%, while core inflation increased from 7.6% to 12.1%. In this regard, the Bank of Russia raised its inflation forecast for the end of 2025 to 7.0–8.0%. According to the assessment of the Central Bank of Russia, the achieved tightness of monetary conditions forms necessary prerequisites for resumption of the disinflation process and return of inflation to the target of 4% in 2026.

In January, Rosstat published new weights of goods and services in the 2025 consumer basket reducing the number of items by 10 to 556 items of goods and services, which is associated with a reduction in the number of tracked drugs.<sup>1</sup> Compared to 2024, the weight of food products in the consumer basket grew (by 0.71 p.p. to 38.83%), the weight of services (by 0.17 p.p. to 27.68%) and non-food products (by 0.54 p.p. to 33.49%) declined.

Inflation over the 12 preceding months amounted to 9.9% in January (Fig. 1), which is by 0.4 p.p. above the level of December of 2023 and by 0.8 p.p. above the maximum for 2024 level observed in July. As before, the greatest contribution to annual inflation is made by the rise in the price of food products – 4.3 p.p. (which is consistent with their greater weight in the consumer basket). However, the contribution of services to annual inflation is also growing (3.6 p.p. in January compared to 3.2 p.p. in December).

In January 2025, the level of consumer prices went up by 1.23% compared to December. A significant contribution to January inflation was made by the rise in prices for food products (0.52 p.p.), with fruit and vegetables continuing to rise in price, which raised inflation by 0.14 p.p. in January. The slowdown in the growth of prices for food products was facilitated by the zeroing of import duties within the EAEU on butter, potatoes, carrots and apples for six months, and on cattle meat – until the end of 2025.

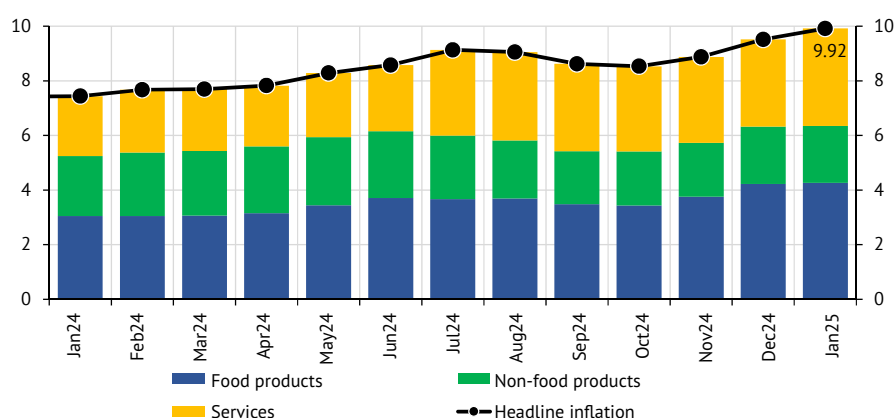


Fig. 1. Contribution of separate components to consumer inflation over the last 12 months, p.p.

Source: Rosstat.

1 URL: <https://rosstat.gov.ru/folder/313/document/254582>

## Rapid growth in money supply keeps maintaining high inflation

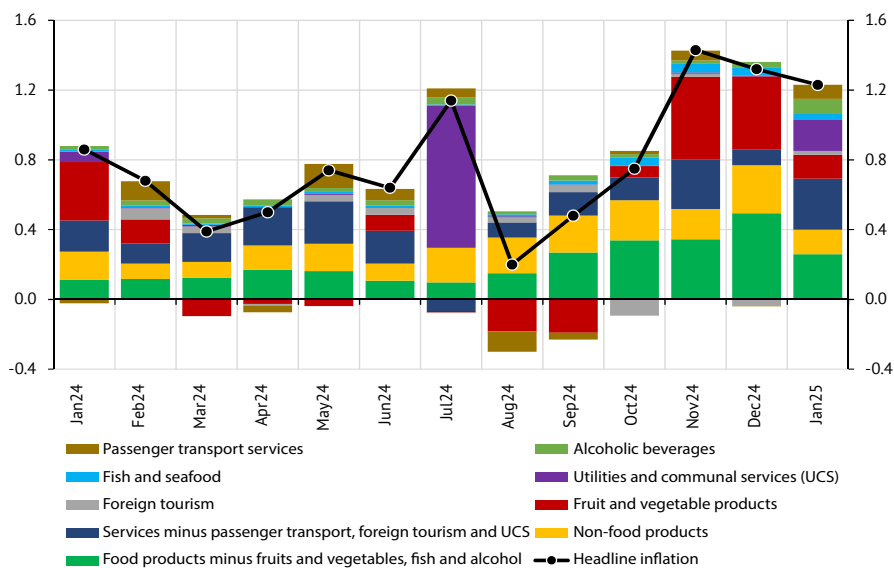


Fig. 2. Contribution of separate components to the growth rate of consumer prices against the previous month, p.p.

Sources: Rosstat, own calculations.

A significant contribution to inflation during the last months is made by the growth of prices for fish and seafood. The share of this component in the consumer basket is only 1.8%, however, the increase in prices in January by 1.83% led to the fact that the contribution of fish and seafood to the January-War inflation and annual inflation amounted to 0.03 pp. In addition, due to the increase in excise taxes on alcohol from January 1, 2025, a significant contribution to January inflation was made by the increase in alcohol prices.<sup>1</sup> The 2.1% increase in prices in January resulted in the fact that the contribution of alcohol to January inflation amounted to 0.09 p.p., and to annual inflation at the end of the month – 0.4 p.p. In general, over the last 12 months, alcoholic beverages rose in price by 10.07%.

In December, the contribution of non-food products to inflation increased from 0.2 p.p. to 0.3 p.p., which is associated with the weakening of the ruble exchange rate (the rate of appreciation of electronics and foreign cars, the cost of which was also affected by the transfer to the prices of the increased recycling fee). However, the contribution of non-food products to January inflation decreased to 0.1 p.p., which, among other things, is associated with a decrease in the weight of these goods in the consumer basket by 0.5 p.p. to 33.5% (Fig. 2).

In the meantime, the contribution of services to the growth of the general price level in January increased from 0.1 p.p. to 0.6 p.p., which is connected with the growth of prices for foreign tourism services (by 2.2%) and passenger transportation (3.7). This added 0.02 p.p. and 0.08 p.p. to the monthly inflation respectively. The factor of significant growth in the cost of services in January was the increase in tariffs for public utilities (2.2%), which led to an additional increase in monthly inflation by 0.2 pp.

Taking into consideration annualized seasonal adjustment (asa), the consumer inflation in January amounted to 11.4% (Fig. 3), which, however, is lower than the values of this indicator observed in November (15.3%) and December (13.2%). Thus, in the last two months there was a slowdown in the growth of consumer prices after its sharp increase by 6.5 p.p. in November.

<sup>1</sup> URL: <https://www.rbc.ru/wine/news/673ca7639a794760324171fb>

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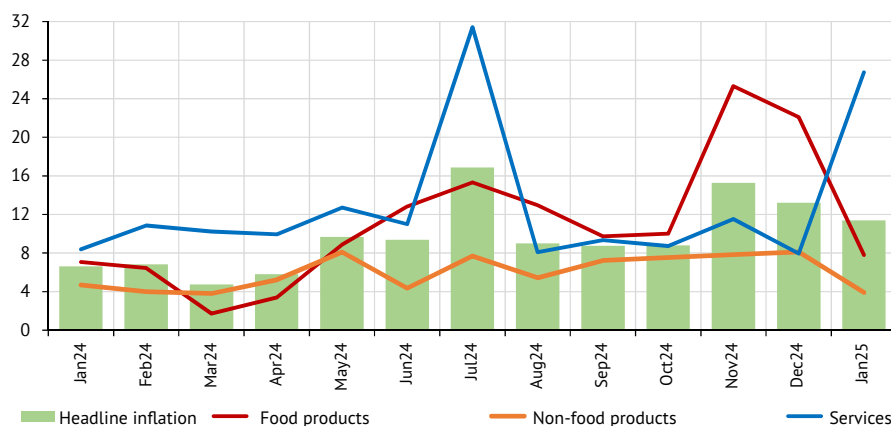


Fig. 3. Dynamic of headline inflation and its main components, % asa

Source: Bank of Russia.

The excess of demand over supply remains the key factor of high inflation: positive output gap. Real GDP growth in Q4 2024 by 3.8% y-o-y (with seasonality removed and translated into annualized GDP growth rates, Q4 GDP also grew by 3.8%), according to our estimates, led to an increase in the output gap by 0.7 p.p. to (1.8%), which was one of the reasons for persistently high inflationary pressure in the autumn-winter months of 2024.

The acceleration of growth in budget expenditures and expansion of the budget deficit hindered the slowdown in inflation in late 2024 – early 2025. In December, the contribution of budgetary operations to the annual growth of money supply seasonally increased, amounting to 2.2 p.p. As of January 2025, the federal budget deficit hit Rb1.7 trillion (0.8% of GDP), which is Rb1.6 trillion more than in the same period of 2024. At the same time, the volume of federal budget expenditures grew by 73.6% YoY to Rb4.4 trillion, which is due to advance financing of some categories of expenditures.

As a result, consumer demand remained high despite the cooling of retail lending and high savings rate, and the slowdown in money supply growth was checked. In addition, the cooling of lending in December 2024 – January 2025 may turn out to be temporary, as it is associated not only with the impact of the tight fiscal policy on demand, but also with the traditional growth of budget expenditures and early advance financing of government contracts.

Operational data for the first 10 days of February (the overall price level increased by 0.30%) indicate the persistence of increased price pressure (inflation in the first half of February is close to that observed in the same period last year). Since the beginning of the year consumer prices in Russia went up by 1.53%. According to the estimates of the Ministry of Economic Development of the Russian Federation, by February 12, inflation for the previous 12 months amounted to 9.99%.<sup>1</sup>

Due to the above-mentioned factors, we expect consumer price growth in Russia to accelerate to 9.95–9.98% y-o-y in Q1–Q2 2025. However, as the effects of tighter monetary conditions, slower wage growth and consumer lending accumulate, we forecast annual inflation to slow down to 9.2% in Q3 and 8% in Q4 2025.▲

1 URL: [https://www.economy.gov.ru/material/file/f4a2fad25febced4251dcce982452571/o\\_tekushchey\\_cenovoy\\_situacii\\_12\\_fevralya\\_2025\\_goda.pdf](https://www.economy.gov.ru/material/file/f4a2fad25febced4251dcce982452571/o_tekushchey_cenovoy_situacii_12_fevralya_2025_goda.pdf)